What is Investing?

Investing is how you make your money grow, or appreciate for long term financial goals. It is a way of saving your money for something further ahead in the future.

Saving is a plan to set aside a certain amount of your earned income over a short period of time in order to be able to accomplish a short term goal. It is a plan of action where you plan on acquiring a certain amount of money by redirecting some of the money you have received from your various sources of income.

Investing, on the other hand, is a much longer term activity. We consider investing as an action that is based on long term goals and is primarily accomplished by having your money make more money for you.

Why Invest?

There are three main reasons to invest. You can beat inflation, achieve financial goals like buying a car or paying for college, and retirement. Yes, you should start thinking about retirement now.
You can choose from many investing options. You can invest in stocks, mutual funds, or bonds!

Time Value of Money

The best thing to do, is to start saving money *as soon as possible*. The younger you are, the more money you will have.
Let me give you an example of how time can save you $52,000 and make you $220,000.

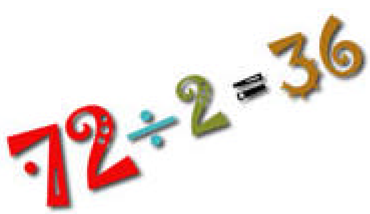
Invest $2000 a year for nine years and start at the age of 21. On a 10% interest rate, the initial $18,000 you invested will be worth $763,000 by the time you reach the age of 65.
If you have a friend who waits until he/she is 30 to start saving and they save $2,000 a year every year until they are 65 which is a total of $70,000, they will only have $542,048.73, a difference of $220,000 from the person who started at the age of 21. Time is definitely on your side, so start early! Imagine what it would be if you started saving even earlier than 21!

What if I have $10,000 invested at various interest rates? After 20 years this is what I would have.

Rate	$ After 20 Years
4%	$21,911
6%	$32,071
8%	$46,610
10%	$67,275
12%	$96,463
14%	$137,435
16%	$194,607

$194,607 vs. $21,911: which do you think is better?

Rule of 72



If you want to know how long it will take to double your money, take the number 72 and divide that number by the interest rate you are getting. So if you deposit $3,000 into an account with a 2% interest rate, 72 ÷ 2 is 36. So in 36 years you will have $6,000.

If you have an interest rate of 12%, you will make $6,000 in five years. The higher the interest, the quicker it is.

Stock Market

The stock market is one option for investing your money. Stocks are unmatched in comparison to any other investing tool. They are the leading way to make money and stay ahead of inflation over time. This is ideal if you have long term investment goals.

When you invest in stocks that a company offers, you are buying a share of that company. Depending on how well the company does determines how much each share is worth.

Comparing stocks to savings accounts, the tendency is that stocks give you a higher rate of return on your initial investment. But that is not without a risk.
The risk is, your stock is not FDIC insured like a savings account. Whatever you put into savings you are guaranteed to receive, plus your interest.

When you buy stock in a company, they could go bankrupt and the business shuts down, or the stock will not be worth the price you paid for it. These things do happen, but if you invest with the proper strategies, you will usually come out a winner.

Bonds

A bond is an agreement on a loan between the issuer and the person buying the bond (bondholder). The bondholder has “lent” a certain amount of money to a government agency, municipality, or corporation and is given interest on the loan.

The term of a bond is given a fixed-rate at the time of issue and expires on the specified maturity date. At that time, the issuer is responsible to pay the bondholder the face value of the bond. Throughout the term of the loan, the issuer also pays interest to the bondholder. The interest amount is set when the bond is issued.

Bonds can vary in term length. The can be a short as one year or as long as 30 years. Usually, the longer the term on the bond, the better interest rate the bondholder receives.

If you choose to sell your bond before the term is up, you can, but you lose money. It's always best to keep bonds for their full term.

Mutual Funds

When investors decide to invest in a mutual fund, then money is put in a pool of money from other investors to create a large portfolio so everyone benefits from bigger profits. Most funds buy a variety of investments like stocks, bonds, or other securities. Because there is such a variety of different investments in one mutual fund, there is not as much of a risk.

Usually if one investment has a bad return, another will make up for that loss.

To invest in a mutual fund, an investor buys shares of the fund and becomes a shareholder. That fund makes money two ways: by earning dividends or interest on its investments and by selling investments that have grown in price. The fund then pays out its profits to the shareholders. **Note**: This is better if you are investing for long term profits.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
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Variable Rate Credit
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Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

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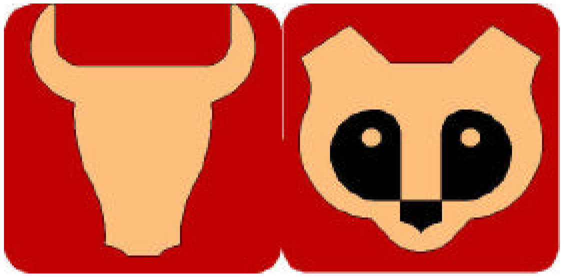

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